

Domestic Market Recap:

- **Wheat procurement touches record level**
- **The EGOM of the government likely to sit again for discussing export of wheat**
- **Punjab and Haryana contributed record wheat to central pool kitty at export.**
- **M.P. stands one of the third biggest contributors.**
- **Govt. will not allow wheat export from govt. stock under food security compulsion.**
- **Wheat is ruling below MSP in Bihar,U.P.**
- **Minimum support price of most kharif crops may go up 15-17%**
- **Pressure on cash and future markets continues on higher supply side.**

Market Commentary:

During last one month prices of wheat at different markets have been uneven due to various factors like delay in announcing bonus, delayed maturity of new crop, inadequate procurement centres in U.P., Bihar and Rajasthan and differential in tax structures. Private trades took the advantage of these drawbacks and are still procuring wheat below MSP where govt. agencies are not active. Prices have been hovering in the range of Rs 10500 to Rs 12500 per ton for mill delivery during the period under review(last one month). Despite declining arrivals prices of wheat are likely to remain under pressure for short term due to better supply prospects specially when there is ambiguity for opening of export. However, in medium and long term prices are likely to go up due to higher costing of procurement and maximum stock stored out in govt. godowns (MSP of Rs 11200 per tons plus additional bonus of Rs 500 per ton). Demand for wheat is expected to gain momentum after June onwards especially during the fag end of arrivals and improving demand from industries like bakery, biscuits and other processors.

Industry sources are expecting wheat prices to stay at higher levels in medium to long term owing to relatively higher economic cost associated with procurement despite higher production and procurement. Wheat is expected to trade in the range of Rs 1100 to Rs 1250 at various centers in coming couple of weeks.

Meanwhile any decision on export by Indian government shall stand encouraging for the wheat prices however uncertainty continues to loom over export. Besides, govt.'s policies regarding to allocation through PDS, various welfare schemes and subsidy along with weather condition will be driving force for direction in the domestic wheat market in months ahead.

Prices of wheat (loose) in Bihar, U.P. and Gujarat are ruling below MSP and the downward pressure is likely to continue on cash and future market even in weeks ahead on higher supply side ,lower demand and delay in allowing export. Prices of wheat in wholesale and retail markets have come down by 0.21 and 0.14 percent respectively in comparison to the previous month. Higher procurement, better supply prospects supported by lower demand, doubt over commercial export are weighing on the market.

However, higher grade wheat like Lok-1,Tukri and Sharbati in various producing zones are ruling at higher level despite bumper production amid normal supply side .Prices of these varieties are unlikely come down due to regular demand from branded consumers who prefer the high protein staple. Prices of these varieties have been either stable or improved by Rs 50 per qtl.in Rajasthan, Gujarat and M.P.

Procurement

As in the past, the Indian Government holds the key to the wheat market in India. With almost a fourth of the wheat produced in the country being procured by the central and state governments and their agencies, the price of wheat in different parts of India, currently is driven by the procurement network of these agencies. The Government is well on its way to procuring over 26 million tonnes of wheat this season having already procured over 25.4 million T by 27th May.

Wheat procurement as on 27.05.11

States	Rabi marketing season 2011-12
Punjab	109 .00
Haryana	68.00
M.P.	44.00
Rajasthan	8.00
Uttar Pradesh	20.00
Others	5.74
Total	254.74

Areas with higher density of procurement centers find the local market prices close to the government announced MSP of Rs. 11200 per Tonne plus Rs. 500 per tonne bonus. Other places find the markets ending closer to Rs. 10500-11000 per tonne. This provides arbitrage opportunities to private players who can procure from such areas (mainly in East UP, Bihar, Rajasthan and Gujarat) and transport the same to the southern states where no wheat is grown. Currently such arbitrage with transportation costs can yield around 3% gross margins.

States that contribute the least to the government procurement are the best bets for export parity also mainly due to the high taxes in traditional procurement centers. Punjab and Haryana charge 14.5% (one percent purchased tax increased from 4 to 5 percent in Punjab) and 13.5% market taxes respectively making it unviable for private traders to procure there.

Exports

The EGOM of the government is expected to sit again for discussing export of wheat, the chances are that this time they will allow some exports through private channels. The regular news of prospects of dropping yields in Europe, uncertain weather, the rising international prices and the successful procurement in this season, has provided enough ammunition for the pro-export lobbies. There seems little arguments against. The Farm Minister who was pitching for 5 Million T exports has now toned the demand down to 3 Million T, making the export possibility more imminent.

Private traders have been procuring and storing wheat for this possibility since the beginning of the season. Since Gujarat and East UP and Bihar had prices depressed due to lack of government

procurement mechanism, the prices were attractive enough for private traders. There is said to be over 150,000 T stocked in Gujarat awaiting the opening of exports of this year's crop. However, much will depend on international price, timing of Indian wheat export opening and parity centres in India, especially when the govt has cleared that it is not eager to export from govt. stock under food security compulsion despite record procurement and stocks.

ParityCalc. on current prices:

There are some more centres like Hardoi and Kota from where traders get marginal parity but freight cost and other applicable taxes are changing current marginal parity into negative parity on current prices.

Export Parity Calc. on Expected CBOT Prices				
Component	Khanna@MS P	Khanna@CM P	Gujarat (Rajkot)	MP (Bhopal)
Ruling Mkt price@ Khanna	11200	11300	11300	12750
Mandi Expenses (loading/unloading, Bagging, Grading etc)	12712	12826	11695.5	13515
Local Transportation & Rake loding charges	400	400	400	400
Freight chareges to Kandla	1200	1200	400	1250
Unloading, Shiploading and misc. handling exp.	450	450	450	450
Transit losses@1%	112	113	113	128
Total Handling cost	2162	2163	1363	2228
Esti. FOB Prices (INR)	14874	14989	13059	15743
Esti. FOB Prices in US \$/MT	328	331	288	348
Current CBOT Wheat Futures Prices	331	331	331	331
CBOT Futures Price in INR	15012	15012	15012	15012
Parity	138	23	1953	-731

Price Outlook

Export parity is not very attractive right now and India can export wheat when prices in the international market go above \$340-345 per ton. Currently CBOT July contract 814.6 cent per bushel (almost \$300 per ton).it may come down to800 cent per bushel and is likely to go up once again and may touch850 cent per bushel in weeks ahead. It may test the level of \$325 per ton. If Prices go up beyond this level India can export in desired destination. Right now export parity is only from Gujarat and Bihar. But commercial export in bulk way is unlikely.

2010-11 Revised Production Estimate (Wheat):

India is growing more wheat than it ever has. Better agronomic practices with supportive weather during critical stages of wheat including fromCRI(crown root initiation) to harvest,has led to higheryield and a record production during 2011.

Backed by huge arrivals in the principal wheat growing states despite initial sluggishness from Punjab and Haryana (the two principal states that contribute most to the government procurement kitty), it is evident that wheat supply is more y-o-y.

Based on the information gathered on yield, Agri Watch is revising estimate of wheat production upward for the crop season 2010-11. The following table shows the revised production of wheat compared to the earlier estimate (1st estimate).

States	2010-11 1st AW Production Estimate (In Million Tonnes)	2010-11 Revised AW Production Estimate (In Million Tonnes)	% Change From 1st Estimate
Bihar	4.51	4.91	8.90%
Gujarat	1.86	2.39	28.71%
Haryana	9.83	10.40	5.84%
Karnataka	0.19	0.27	42.11%
Madhya Pradesh	7.57	7.96	5.09%
Maharashtra	1.04	1.37	31.25%
Punjab	15.08	16.51	9.46%
Rajasthan	5.37	7.33	36.41%
Uttar Pradesh	24.47	27.98	14.32%
India	83.69	85.10	1.68%

The Ministry of Agriculture in its 3rd advance estimate (released on 06.04.2011) also revised upwards its wheat production estimates from 81.47 million tonnes (2nd advance estimate) to 84.27 million tonnes.

Crop Quality:

Harvesting of wheat crop is over and even threshing is at the fag end now. Overall quality of new seeds is good this year in all the key producing regions of the country and there has been no incidence of pest and disease in any of the growing regions. Better grain size, good colour of grain denotes better quality of the newly harvested wheat crop arriving in the markets.

Food Security Act

National Advisory Council recommends that subsidized food grains should be made available to at least 75% of the population –comprising of 90% in rural areas and 50% in urban areas. It suggests classifying households in two categories –

- i) Priority households entitled to have a monthly quota of 35 Kgs (or @7 kg/person) at a subsidized rate of Rs 1/Kg for millets, Rs 2/Kg for wheat and Rs 3 /kg for rice;
- ii) General Households(entitled to 20 Kg/ month (or 4 Kg per person) at a price not exceeding 50% of the current MSP for millets, wheat and rice.

Together, it implies coverage a 90% rural population and 50% urban population. NAC also suggests that in the first phase, coverage should be 85% rural population (46% Priority population and 39% General Population in Rural areas) and 40% of the Urban population (28% priority and 12% General Population in Urban Areas) and that, full coverage should be extended by March 2014.

The Food grains requirements accordingly for phase I (covering 85% rural and 40% urban) and final phase (covering 90% rural and 50 % urban population) will be as shown overleaf.

	Rural	Urban	Total
No. Of Households (Oct 2010)	166241000	70988200	237229200
Priority Households	76470860	19876696	96347556
Food Grains Required For Priority Households (in Mn T)	32.12	8.35	40.47
Other Households	64833990	8518584	73352574
Food Grains Required For Other Households(in Mn T)	15.56	2.04	17.6
Total Required In Phase I	47.68	10.39	58.07
Additional Required In Phase II	4.19	1.7	5.89
Total Required For Implementation Of The Act(in Mn T)	51.87	12.1	63.96

Source :Arvind Kumar, IAS

The buffer norms (including strategic reserves) including provisions for natural calamities requirements of about 5 million tonnes (3.5 million tonnes plus 1.5 million tonnes for natural calamities) and provision for 'Other Welfare Schemes'(OWS) @ 6 million tonnes imply an additional requirement of 11 million tonnes.

This implies a procurement requirement of 69.07 million tonnes during Phase I and about 75 million tonnes from March 2014 onwards.

Supply and Demand

With upward revision of Indian wheat production estimates, total availability is expected to improve further and is up by nearly 1.43%. At the same time carry out stocks is likely to up by nearly 7.7% assuming minimum export of 2.24 million tons when compared with the previous estimates.

All units in million tonnes	2009-10	AW PreviousEst 2010-11	AW Revised Est 2010-11
Carry in	13.42	16.12	16.12
Production	80.80	83.69	85.12
Imports	0.15	0.00	0.00
Total Availability	94.37	99.81	101.24
Consumption	78.15	79.00	79.00
Exports	0.10	2.24	2.24*
Total Usage	78.25	81.24	81.24
Carry out	16.12	18.57	20.00
Av Monthly Consumption	6.51	6.58	6.58
Stock to Month Use	2.48	2.82	3.04
Stock to Consumption Ratio	0.21	0.24	0.25

Export is kept 2.24 million tons despite the Government ruling out immediate opening export. However, if government do agree to allow exports, a minimum of 2.24 million tons can easily be exported from India.

Given the record production and overall increase in supply front, the exportable surplus is further increased from minimum 2.24 million tons to 6 million tons on the higher keeping overall ending stock position in government comfort level of 16 million tons.

Considering the overall wheat scenario, there would be ample wheat stocks available during the season end and a lot would depend on for the government's stance as far as timing and volume of exports are concerned.

Trading Activities:

Meanwhile, trading activities have come down in most of the major centers with declining arrivals. However, flour millers, small traders and Atta chakkis are actively buying wheat for fulfilling their immediate requirements. Even higher availability of wheat in Punjab and Haryana local flour millers are sourcing wheat from U.P. and Rajasthan due to cheaper availability.

Traded wheat status in different states and percentage participation by govt.&trade

States	Procurement by Private Trade	Stock Retained buy Private Trades from the Procured Quantity	Govt. Participation in Procurement	Stock retained by farmers	Stock being loaded for various destination (Private & Govt.)
Bihar	95%	20%	5%	10%	Orissa
Gujarat	70%	30%	20%	15%	Southern states
U.P.	85%	30%	15%	20%	Punjab, Orissa and A.P.
Rajasthan	75%	25%	25%	18-20 %	Punjab, Guj., Orissa and A.P.
Punjab	1-2 %	10%	98%	10-15 %	PDS
Haryana	1-2 %	10%	98%	10%	PDS
M.P.	10%	8%	90%	Appx 10-12 %	PDS

Note: These are private trade estimates expressed by various local grains merchants.

Inflation and food stocks

Food Inflation in India has been varying between 7.5% and 17% over the last three years. The contribution of cereal to the inflation is minimal whereas vegetables, fruits and milk have seen rises of 77%, 15% and 11% respectively over just 2010-11. However, a side-effect of the same is that the government is reluctant to be seen doing anything that could fuel the inflation further. To add to the miseries, petrol prices have been raised again in May 2011 with a possibility of another raise in a month's time. Though little of petrol affects food prices, the hype surrounding these steps is quite high since it is seen as impacting disposable incomes. With the inflation unabated after interest rate adjustments 9 times in the year, opening the exports of wheat is seen as a political landmine more than a real economic issue.

Weather – monsoons

Monsoon has already hit Kerala a day ahead of schedule. There are predictions of a normal monsoon in most of the country, which should provide a good base for the kharif crops especially paddy, maize and oilseeds. India's June-September monsoon rains are expected to withdraw on schedule, the chief of the weather office said on Wednesday, unlike last year when late end-season in August/September rains hit Kharif Pulses output and delayed Rabi sowing. A timely withdrawal of the monsoon, which delivers more than 70 percent of annual rainfall, will boost output. State governments have a crucial role to play, not only in ensuring adequate availability of inputs (seeds, fertilisers, agrochemicals, etc.), but also in closely monitoring the progress of farm operations. On its

part, the Union Agriculture Ministry must announce the minimum support price (MSP) for various kharif season crops well ahead of actual planting so that growers can decide which crops to plant and source appropriate inputs.

Price table:

		05.05.11	17.05.11	26.05.11	30.05.11	Arrivals/MT 30.05.11
State	Markets	Rate Rs/Qtl.	Rate Rs /Qtl.	Rate Rs /qtl.	Rate Rs/qtl.	
Bi har	Barauni	1085-1095	1115-1120	1120-1125	1110-1115	300
	Khagaria	1090-1100	1110-1115	1125-1130	1115-1120	390
	Samastipur	1085-1090	1110-1115	1125-1130	1110-1120	270
	Gulab bag	1000-1010	1025-1030	1010-1015	1010-1025	330
M.P.	Indore	1275-1290	1295-1300	1285-1290	1280-1290	900
	Dewas	1280-1285	1290-1305	1290-1295	1275-1285	850
	Ujjain	1280-1290	1295-1305	1295-1305	1285-1295	800
	kannauj	1260-1275	1270-1280	1265-1270	1260-1265	900
Gujarat	Rajkot	1125-1135	1161-1170	1135-1140	1120-1130	800
	Gondal	1125-1130	1156-1165	1125-1135	1130-1130	500
Rajasthan	Kota	1275-1280	1290-1300	1290-1295	1280-1285	900
	Sri ganganagar	1280-1290	1300-1315	1285-1295	1280-1290	550
	Hanumangarh	1275-1285	1312-1320	1295-1300	1280-1295	450
U.P.	Kanpur	1180-1190	1203-1210	1205-1215	1200-1205	500
	Bareilly	1185-1190	1205-1215	1195-1205	1190-1195	550

Prices of wheat in various markets have slightly come down in comparison to first week of May and downward pressure is likely to continue on higher supply against lower demand. Govt. is planning to sell through open market sale scheme in domestic market at the price of Rs 1254 per qtl. after June to keep prices under check. However, traders are of the view that response will remain poor due to high set prices and traders will not be able to buy at this price due to negative margin. At this rate cost for traders will go up to Rs 1285-1290 where as wheat be available abundantly at lower prices in the market.

International Market

- Dryness plaguing key growing areas of the southern Plains and Europe underpin prices.
- Planting is being delayed in Canada however uptrend restricted on profit taking at higher side.
- Russia is expected to produce 55 MMT wheat this year.
- Asian markets are eyeing towards Australia, Pakistan and Ukraine for adequate wheat supply.
- Ukraine is potentially a strong supplier this year supported by Russia.
- The CWB has hiked its price projections for various wheat grade marketed during the 2010-11 (Aug to July).
- The IGC has slashed its forecast for the 2011/12 global wheat crop by 5 million tonnes to 667 million.

- Global wheat production was now expected to fall slightly shy of anticipated record demand in 2011/12 of 669 million.
- Pressure is mounting on Russia for opening up exports wheat stock is 16.5 MMT, crop production estimate updated upward.
- U.S. wheat production was forecast at 56 million tonnes, down from a previous projection of 57.5 MMT.
- Iraq expects its wheat harvest to increase to between 2 million and 2.5 million tonnes this year
- Algeria's state grains agency OAIC is seeking to buy 50,000 tonnes of durum wheat for shipment between July 20 and August 10
- Canadian Planting Intentions Up, but Weather Causing Delays.
- The estimate for total wheat exports from France was raised to 19.36 million tons from 19.26 million tons.
- Australia Can Expect Bumper 2011-12 Winter Wheat Crop at 25.5 MMT.

Global Wheat Balance Sheet: 2011-12

(Quantity in Million tonnes)

Country	Opening Stock	Production Projected	Domestic Consumption	Imports	Exports	Ending Stocks	Production (last year's esti.)
USA	22.84	55.60	33.74	2.99	28.57	19.11	60.10
Canada	6.19	26.00	7.90	0.40	18.5	6.19	23.16
Australia	6.15	24.50	8.50	0.10	15.00	7.25	26.00
Argentina	1.99	13.50	5.92	0.05	8.00	1.57	15.00
Russia	5.62	53.00	40.80	0.20	10.00	8.02	41.50
China	59.92	115.50	111.00	1.00	1.00	64.42	115.00
EU	11.70	138.61	125.00	6.00	18.00	13.32	135.76
Ukraine	4.15	19.00	11.80	0.05	8.5	2.90	16.84
Pakistan	3.45	23.50	23.40	0.02	1.2	2.55	23.90
India	14.45	84.00	84.70	0.30	0.30	13.74	80.80
World	182.20	669.54	667.17	124.02	127.34	181.25	648.13

(Source: USDA)

Wheat production in USA, Australia, Argentina and Pakistan are expected to decline in comparison to last year whereas production in Canada, Russia, China, E.U. Ukraine and India has improved from last year's crop. Total world wheat production pegged at 669.54 MMT against projected consumption of 667.17 MMT. This indicates higher production (2.37 MMT) in comparison to consumption. However, higher ending stock will restrict wheat prices to go up one way despite lower production and

consumption gap. Weather will be the driving force to give direction to the world wheat market in June and July. The US winter wheat crop is expected in July but crop condition is not good and Ukraine and Russia are almost ready to enter in the world wheat market in 2011-12. It will impact the world wheat market sentiment as both countries are expected to be the cheaper source of wheat supply in the second half of this year. So any undue uptrend is unlikely in June. India and Pakistan will also be the cheap source of sourcing wheat in third and fourth quarters.

Asian flour millers are pinning their hopes on Australia, Pakistan and Ukraine to ensure adequate supplies to help them cope in a bullish market being driven by adverse weather in Canada, Western Europe and the U.S. There is no doubt Asian millers have to pay more for the grain but the silver lining is that they aren't dependent on France and Germany for their needs while Ukraine is potentially a strong supplier this year. Australia, along with Ukraine, are expected to meet a large part of expected demand especially distracted buyers from E.U. due to firming up tone on extended dry spell. Prices are likely to remain at higher side in weeks ahead.

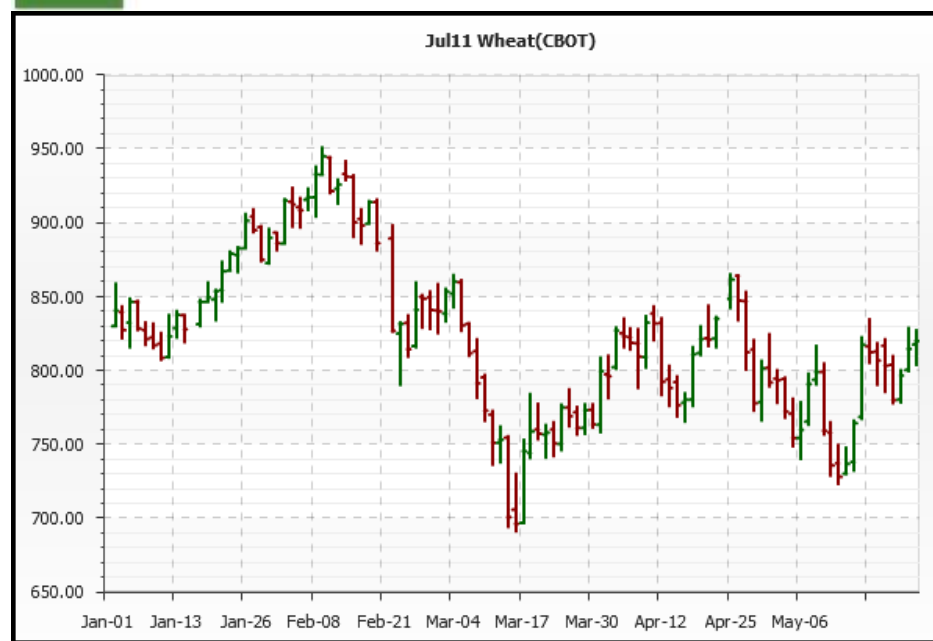
However, USA (28.57 MMT), Australia (15 MMT), Canada (18.5 MMT), Russia (10 MMT) and EU (18 MMT) will be the key players in the world wheat market from June onward. Total wheat trade is expected to touch 127.34 MMT this season (2011-12). Demand from South Asian nations is likely to be firm despite political disturbances in these areas. Asian nations are eyeing now on Russia and Ukraine to meet their demand and waiting for green signals from both the countries.

Wheat Prices (International & Domestic)

CBOT Futures Prices (USD per Metric Tonnes)				
Futures Month	% Change Over Previous Month	Today (27.05.11)	Week Ago (20.05.11)	Month Ago (26.04.11)
July'11 (\$/MT)	-3.51	300.26	296.31	311.19
July'11 (INR/MT)	-3.51	13598.67	13419.79	14093.70
Sept'11 (\$/MT)	-2.72	318.08	317.16	326.99
Sept'11 (INR/MT)	-2.72	14405.69	14364.09	14809.20
Dec'11 (\$/MT)	-1.97	333.97	328.09	340.67
Dec'11 (INR/MT)	-1.97	15125.35	14859.11	15429.02
March'12 (\$/MT)	-1.31	345.72	338.01	350.32
march'12 (INR/MT)	-1.31	15657.81	15308.38	15865.81

Note: 1 Bushel = 27.216 kg. CBOT market remained closed on Saturday (One dollar value Rs 45.29)

CBOT Price Outlook (July'11 Contract) (Prices in Cents/bushel)



Price Expectation

At international front, wheat price at the bench mark market of CBOT is likely to stay in a tight range during the coming week. At the lower side prices might find support towards 720 cents/bushel which might find trendline support and attract traders to go long in exchange platform. At the higher levels it is likely to test towards its key resistance zone of 820 cents/bushel and any decisive close above the same shall turn the sentiment firm which is likely to lead.

FOB Prices

Landed Cost Wheat (As on Date: 27.05.2011)

Cost Component		Australia	USA	France	UK
FOB Value		304.10	315.00	351.50	321.40
Freight		55.00	60.00	60.00	62.00
Export tax		0.00	0.00	0.00	0.00
C&f Value		359.10	375.00	411.50	383.40
Int. charge for one month	0.01	3.59	3.75	4.12	3.83
Risk premium-risk of rejection at Indian port	10	10.00	10.00	10.00	10.00
C & F Value plus risk premium & int. charges		372.69	388.75	425.62	397.23
Landing charges	0.01	3.73	3.89	4.26	3.97
Landed cost at Indian port(USD/MT)		376.42	392.64	429.87	401.21
Landed cost at Indian port(NRI/T)	45.29	17047.97	17782.55	19468.86	18170.64
Port handling charges		800.00	800.00	800.00	800.00
Local transport		110.00	110.00	110.00	110.00
Warehousing charges (for 1 Month)		75.00	75.00	75.00	75.00
Transit Insurance		12.00	12.00	12.00	12.00
Gunny bags		500.00	500.00	500.00	500.00
Transit loss	0.05	9.25	9.25	9.25	9.25
Loading & unloading		200.00	200.00	200.00	200.00

Market price of wheat		18754.22	19488.80	21175.11	19876.89
profit margin	2%	375.08	389.78	423.50	397.54
Total cost		19129.30	19878.58	21598.62	20274.42

Note: The internal cost of marketing has been worked out in consultation with port and market experts to arrive at the actual market cost of imported wheat. This calculation would help in finding out the feasibility of import/export.

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